A PROFILE OF
THE LIFE INSURANCE INDUSTRY
IN HONG KONG

CHAN MEI-YUK, DAISY
陳美玉
FUNG SEK-YUNG
馮錫湧

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Danny Wong

(DR. DANNY S.N. WONG)

Advisor

ABSTRACT

Theoretically speaking, life insurance is a social risk device against any economic losses that may be brought about by premature death. In practice, this is the most important sales pitch of life insurance companies (insurers). However, in spite of its prevalence in the western societies, life insurance in Hong Kong remains at the infant stage as the general acceptance of the industry revolved at an extremely low level.

When compared with its western counterparts, the degree of penetration of the life insurers into the Hong Kong market, 3-5%, is incredibly low. In order to explain the existence of such phenomenon, the social, cultural as well as economic aspects of Hong Kong are probed into. In the process of investigation, the uniqueness of the Hong Kong life insurance industry draws the attention of the researchers.

After series studies, the marketing and financial aspects of the life insurance industry have been explored. It is discovered that existence of a relatively under-developed life insurance industry in Hong Kong is not

only a product of conservative oriental culture, but also a direct result of the nonaggressive marketing strategies and investment behaviour employed by the life insurers.

At this juncture, the researchers also discovered that certain undercurrents are gaining momentum. The most important of all is the gradual change of Hong Kong's social and economic structures, and eventually their acceptance of the concept of life insurance. Meanwhile, the life insurers also realize the deficiencies of their practices and are moving towards the verge of reformation.

The researchers believe that the market potential of Hong Kong's life insurance is vast. Spectacular development of the industry will be the picture of tomorrow provided that more customer-oriented life products are introduced to meet the demands of the progressively mature Hong Kong market.

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CHAPTER I

INTRODUCTION

1.1 PURPOSE OF THE STUDY

Traditionally, the concept of life insurance has not been popularly accepted by the oriental societies because of their unique cultural, social and economic backgrounds. It is therefore not surprising that ordinary people of Hong Kong may not have much interest in nor understanding of the life insurance industry.

In spite of the fact that Hong Kong is recognized as one of the advanced commercial centres in the world, and that it plays an important role in the international financial arena, its life insurance industry, unlike most of the western counterparts, is under-developed. Although life insurance has a very long history in Hong Kong, the business is unfamiliar to the public and enjoys an extremely low social acceptability. There is considerable consumer resistance to life insurance in Hong Kong while it is widely accepted in the developed and affluent countries as a social risk spreading device that every family must possess.

In order to find out why Hong Kong exists such a phenomenon, an in-depth study of the life insurance industry is worthwhile. Moreover, it is crucial for business students including us to have a basic understanding of the functions and operations of the insurance sector as it is an integral part of the entire commerical sector. It is also ambitiously hoped that a profile of the industry can be portrayed as the basis for further investigations by interested parties.

Unfortunately, Hong Kong lacks statutory reports and statistical studies of the life insurance industry, thus any study of the life insurance market in Hong Kong is a difficult and challenging task as overall figures about the insurance market is available only from educated guesses made by knowledgeable persons of the industry. However, it is hoped that a relatively comprehensive picture of the Hong Kong life insurance business can be developed for future reference.

1.2 FUNDAMENTALS OF LIFE INSURANCE

1.21 DEFINITION

Life insurance is an indispensable element of a genuinely modernized commercial and industrial society. In a general sense, insurance can be thought of as a device to safeguard against economic loss by having the sufferings of the unfortunate few paid for by the contribution of the many who are exposed to the same risk. While from an individual's perspective life insurance is a device to protect his life as well as properties, from a macro perspective the industry is in fact performing the role as a stabilizer of society and economic activities by means of risk sharing and transferring.

The basic functioning of insurance can be described in the following way: the uncertainty of one party (the insured) is reduced by transferring particular risks to another party (the insurer), who offers a restoration of the economic losses suffered by the former. For instance, if you have health insurance and break your leg, the insurance company will pay a certain amount of money for the medical costs incurred. This concept is generally applicable to all types of insurance.

1.22 TYPES OF POLICIES

There are three basic types of life insurance policies, namely Term Policy, Whole Life Policy, and Endowment Policy.

TERM POLICY

Term Insurance provides limited protection for a given period of time, such as one year, five years, ten years, and so on. The face amount of the policy is payable to a beneficiary at the death of the insured, if it occurs within the specified period. As a rule, Term Policy does not build cash value. However, some kinds of Term Policy are convertible, which means that they can be exchanged, without proof of insurability, for permanent insurance on a Whole Life or Endowment Policy though no cash value is allowed. Meanwhile, cash value refers to the amount of money that will be received on the voluntary termination of the policy by the owner before it is payable at death or maturity. Actually, there are two important types of Term Policy, namely Decreasing Term Insurance and Credit Life Insurance. While Decreasing Term Insurance is useful for people who are seeking maximum insurance protection for the minimum cost, Credit Life Insurance is a type of policy issued by a lender or an insurance company to cover the payment of a specific loan or obligation in case of premature death.

WHOLE LIFE POLICY

Whole Life Insurance, or as it is sometimes called, Straight Life, Ordinary Life, or Permanent Life, gives permanent protection. The face amount of the policy is paid upon the death of the insured regardless of when it occurs. In addition to insurance protection, such policies build up cash values. The insured can borrow the cash value built up in the policy in the form of policy loan; or stop paying premiums altogether and use the accumulated cash value to buy either extended term insurance or a reduced amount of paid up insurance, or surrender the policy and withdraw the entire amount. Moreover, premiums for whole life insurance may be compressed into a shorter time span. Those who choose to compress the time span pay larger premiums than necessary early in the life of the policy and use the accumulated amounts to buy limited payment policies. In such policies, the premiums needed by the contract represent a sum which is sufficiently larger than the aggregate amount required during the same period for an ordinary life plan.

ENDOWMENT POLICY

Endowment Policy is basically a savings plan supplemented by a modest amount of insurance protection. They provide for the payment of the face amount of the policy upon the death of the insured during a specified time period, or the payment of the face amount at the end of that period if the insured is living. Once the Endowment matures and the face amount is paid, the insurance coverage expires. Endowment Policy is often used to accumulate funds to put children through college, for retirement, or for other financial purposes. The premium payments for Endowment Policy are higher than others because the policy builds up higher cash values or savings.

1.23 PROTECTION AND SAVINGS

The relationship between protection and savings for the three basic policies is depicted in Figure 1-1. It is apparent that term policy consists of insurance protection, and there is no cash value nor savings. Whole Life Policy consists principally of protection with some savings. The amount of term protection declines as it is replaced by savings. Endowment Policy consists principally of savings with less term protection. As a matter of fact, both Whole Life and Endowment Policies can be thought as a combination of decreasing term insurance and increasing investment-cash value. After one year or two, the amount of the protection element in the policy declines and the savings accumulation increases. Two elements added together are the face value of the policy. For example from Figure 1-1, the eleventh year of a particular endowment policy illustrates the savings amount to $5,000 and the insurance amounts to $5,000, the total value is $10,000.

1.24 LIFE INSURANCE PREMIUMS

Premium income is the major source of fund for life insurance companies. Each life insurance company determines the amount of premium that policyholders must pay. The rates are based on the type of insurance policy, the probability of death, compound interest (in terms of present value), the cost of running the business, and other considerations.

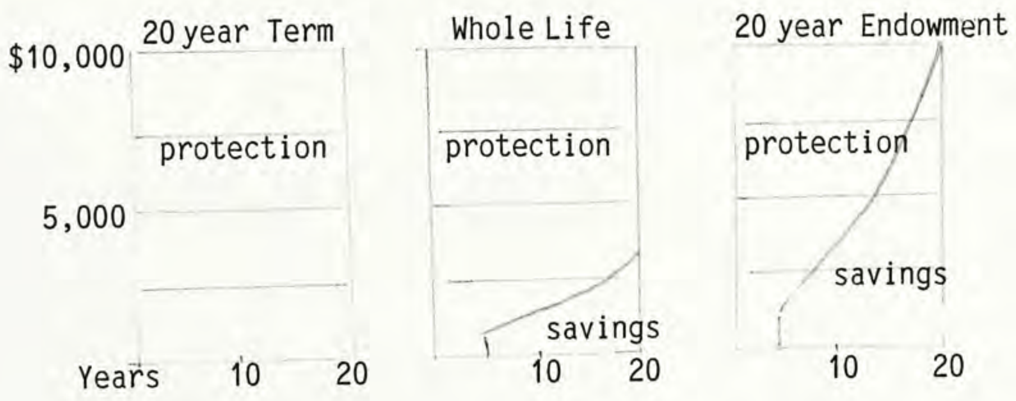
Among others, two of the most important factors influencing the size of life insurance premiums are:

DEATH RATE

Statistics are kept on the number of people who die and the ages at which they die, and the data are compiled into mortality tables, as shown in Figure 1-2, which are used to indicate the death rate among a particular age group and their expectation of life beyond the specified age. Generally speaking, as age increases, the number of deaths per 1,000 increases and the expectation for life declines. Thus, life insurance company can calculate and determine the premiums accordingly.

ASSUMED INTEREST RATE

The calculation of the assumed interest rate is based on the concepts of compound interest taking the present value into account. The money paid as premiums in excess of immediate claims or expenses is invested and compounded by the insurance company. As life companies depend on compound interest adding to their income and paying a portion of the anticipated payments and expenses, the premiums paid by policyholders are lower than they would otherwise be. Meanwhile, insurance companies use present value to determine how many dollars of premium income they must collect today and invest at the assumed interest rate in order to pay claims when they come due. The assumed interest rate is used to determine the dollar amount of reserves required to meet policy obligations. Overhead expenses and other costs are also added to the expected rate to determine the premium paid by policyholder.



Source: Benton E. Gup, Financial Intermediaries -- An Introduction, Boston 1976 p.131

Figure 1-1 Comparsion of Basic Policies Issued at Age 25

TABLE OF MORTALITY

Age (Male)	Death per 1,000
15	1.46
20	1.79
25	1.93
30	2.13
35	2.51
40	3.53
50	8.32
60	20.34

Note: For female lives, use age in the above table 3 years younger than the actual age.

Source: 1973 Life Insurance Fact Book, New York Institute of Life Insurance, New York:1973, pp.110-111

FIGURE 1-2

1.3 OVERVIEW OF THE REPORT

The presentation of the main content of the research report begins with the methodology section which is shown in Chapter II. While Chapter III introduces the industry's external environment, namely the legal and cultural environments, where the life insurance industry operates. Chapter IV examines the marketing aspect, manpower employed as well as the overall performance of the industry. Accordingly, Chapter V deals with the financial aspect of the life insurance industry. Finally, Chapter VI summarizes the findings as well as the recent trends of development and opportunities for the life insurance insurers in capturing the gradually mature Hong Kong market.

CHAPTER II

METHODOLOGY

2.1 METHOD EMPLOYED

As there is absence of formal statistical studies or statutory reports of the Hong Kong life insurance industry, the data collection method becomes a very significant part of the investigation as it will affect the quality of the information obtained and then the objectivity as well as representativeness of the report.

In order to ensure that a comprehensive picture of the life insurance business is authentically postulated, the data collection method has utilized both the readily available secondary sources as well as the unexplored primary sources for information.

As a result library research, personal interviews and telephone interviews are conducted for information gathering, statistical analysis and subsequently for report compilation.

2.11 LIBRARY RESEARCH

Most of the theoretical information about life insurance is the result of this library research. It includes textbooks, academic publications, and the articles in periodicals that provide a general picture on the performance and development of the industry. They are valuable materials in which the dimensions for investigation are systematically found. The books, articles and periodicals that the writers have come across in this extensive library research are included in the bibliography of this report.

2.12 INTERVIEWS

Throughout the research, the writers tried to arrange informal interviews with those knowledgeable persons of the life insurance industry though at times telephone interviews were also conducted upon the request of the interviewees. The companies and people interviewed are listed as follows:

TAM, Michael	Department of Business Administration Hong Kong Polytechnic
KAN, (Miss)	Vita Life Insurance Company Limited (H.K. Branch)
WU, Terence	Sentry Insurance, Hong Kong
KOO, Norman	Sentry Insurance, Hong Kong
LEUNG, Gilbert	Sentry Insurance, Hong Kong

HUNG, Jackson	Sun Life of Canada
MOK, Alex	Sun Life of Canada
CHAN (Mr.)	Census & Statistics Department
KWOK, Stephen	Wing On Life Insurance Co.
CHENG, (Mrs.)	American International Assurance Company
CHEUNG, Cliff	American International Assurance Company
LUI, Mary	American International Assurance Company
CHENG, Danny	American International Assurance Company
CHENG, Sydney	American International Assurance Company

2.2 SOURCES OF INFORMATION

Since there is a lack of any sufficiently comprehensive study of the life insurance industry in Hong Kong, this report is intended to be a curtain lifter of a series of investigations of the life insurance business. Being the forerunner, the information included should be accurate and inspiring, thus different sources of information are approached for cross reference and validation.

Consequently, personal interviews with knowledgeable persons of major insurance companies as well as experienced instructor of insurance courses of the Hong Kong Polytechnic; telephone interviews with Government officials and related parties are conducted.

Moreover, review of relevant articles in the press and magazines are carried out while analysis of the annual reports and financial statements of some selected life insurance companies becomes a significant portion of the study.

It is believed that the information collected from various sources can supplement each other, and eventually contribute to the postulation of a comprehensive picture of the life insurance industry.

CHAPTER III

THE EXTERNAL ENVIRONMENT

3.1 THE LEGAL ENVIRONMENT

3.11 BACKGROUND

For more than a century, laissez faire policy has been the managing philosophy of Hong Kong. The government upholds the belief of positive non-interventionism with minimum legislative constraints over the business community. The life insurance business has been, with no exception, subject to little legal control. Before 1980, Insurance Companies (Capital Requirements) Ordinances was the principal legislation setting the basic standards of capital and solvency margin for the industry. Though authorization was enacted and proved salutary, these regulations were interim measures employed in gentler days when the industry played a less important role in the commercial sector. However, as the life insurance business continued to develop, the established set of regulations has become increasingly outmoded and inadequate that the government decided it was the time for reformation.

3.12 THE 1983 ORDINANCE

In order to provide a better control for the life insurance industry and a greater protection for the interest of the general public, a new Insurance Companies Ordinance was introduced. The Ordinance, which contains nine parts and three schedules, became effective on June 30, 1983. It is a comprehensive legislation that is largely based on the similar one in the United Kingdom. It regulates the transactions of all classes of insurance business in or from Hong Kong to authorized companies, to Lloyd's of London and to certain underwriters approved by the Governor-in-Council.

Before a company can obtain authorization from the Registrar General, who is appointed the Insurance Authority for the purposes of the Ordinance's execution, certain requirements must be satisfied before the registration. Some of these important provisions are:[1]

1. The stability of the directors and controllers of the company should be maintained.
2. A minimum paid-up capital requirement of HK$5 million for companies underwriting long term (life) business, HK$10 million in case of companies underwriting both long term and general business or statutory business.
3. With respect to solvency margin, there are different

requirements applicable to various companies.

a. For companies only carrying on long term business, HK$2 million or its equivalent is required.

b. For companies doing both general and long term business, the solvency margin is calculated according to its gross premium income plus HK$2 million in addition.

c. For the purpose of calculating the margin, the Insurance Authority will take the premium income of any financial year arrived at by considering either gross premium income less reinsurance or 50% of the gross premium income, whichever is greater.

4. The Ordinance requires insurer to pay an annual fee of HK$25,000 to the Insurance Authority, and the classes of business authorized are:

A-Life and annuity

B-Marriage and birth

C-Linked long term

D-Permanent health

E-Tontines

F-Capital redemption

5. The Ordinance also regulates the submission of prescribed financial statements and supplementary information to the Insurance Authority; names of insurance companies carrying on long term business; grounds on which powers of intervention are

exercisable; insolvency and the winding up of insurance companies; special provisions relating to Lloyd's; insurance bodies exempted from the provision of this Ordinance; and other supplementary as well as transactional provisions are also stated.

3.13 THE IMPACT

The impact of the Insurance Companies Ordinance 1983 can be seen from the fact that as of June 30, 1983 and May 31, 1984, there were 307 and 275 authorized insurance companies respectively[2]. According to the figures from the Registrar General, 45 insurance companies were not allowed to underwrite new policies or renew existing policies after June 1983 when the new Ordinance became effective.

Among these 275 insurance companies, 50 of them were life companies and 30 were composite companies, carrying both life and general insurance. Apparently, the Ordinance has achieved one of its objectives and succeeded in minimizing the irregularities of the industry. The Ordinance is considered necessary in safeguarding the well being of insurance companies and the interest of the general public.

However, the Ordinance is not sufficiently comprehensive in the sense that it does not cover the intermediaries. As it is accepted that intermediaries are in as much need of regulation as insurance underwriters in Hong Kong, thus at present it leaves the Law Reform Commission to examine the nature and extent of abuses by such intermediaries, and to suggest possible remedial actions.

3.2 THE MARKET ENVIRONMENT

Due to the absence of official statistics, an overall picture of the life insurance market is difficult to postulate; however, it is generally estimated that only 3-5% of the population in Hong Kong have effected life policies.[3] Though the figure is a good indicator to support the assertion that the existing long term business in Hong Kong is only scratching the surface of the potential market, the same figure also suggests that people of Hong Kong do not possess a positive attitude towards life insurance. To be specific, a number of reasons contributing to the people's lack of interest in life insurance will be discussed in the coming section.

3.21 REASONS FOR THE LACK OF INTEREST IN LIFE POLICY

With respect to the issue why the public did not effect insurance cover, the reasons are various. They include:

CULTURAL BACKGROUND

In tradition, individuals in the Chinese society tend to be 'family-oriented' while those in the western society are 'society-oriented'. The relationship between an individual and his family is much stronger in the Chinese Society than that in the western society. In spite of the fact that nowadays nucleus families have replaced the traditional big families in Hong Kong, people still prefer the conventional human relationship and attitude of value found in the old Chinese families. As a result, family members tend to help each other, rather than to rely on the external force such as insurance to serve as a social risk spreading device. Therefore, the concept of life insurance is not readily accepted by the people of Hong Kong as a necessity that a family must possess. Furthermore, most of the Chinese are believed to be superstitious, they are brought up in a culture of conservatism and share one common norm--the taboos of talking about death. Thus, most of the Hong Kong Chinese do not accept the concept of life insurance as a tool to damper economic loss when premature death occurs.

ATTITUDE TOWARDS INSURANCE

As life insurance is an alien concept to most Hong Kong Chinese, it is not surprising to find that they do not recognize the need for and the importance of a life policy or even are not prepared to acquire the notion of life insurance. On the other hand, past records and practices of some irresponsible life insurance companies have left to the public a negative image that life insurance is not trustworthy. Moreover, some people resent the high premium rates of life policies while others prefer to invest and bear the risk by themselves. Worse still, the lengthy life insurance documentation and procedures further discourage many people to approach such idea.

CONSUMPTION PATTERN OF HONG KONG PEOPLE

When compared with other South East Asian countries, people of Hong Kong have a higher rate of propensity to consume but without a strong desire for saving. This may hinder the potential growth of the life insurance business as no immediate tangible benefit can be seen by the consumers at the initial stage when they purchase life policies.

The preceding section are several possible reasons accounted for the low social acceptability of the life insurance concept in Hong Kong.

However starting with 1980, Hong Kong has become the third largest international financial centre in the world.

It is also the second leading insurance centre in the Asia-Pacific region, just behind Japan. There is a remarkable size of international business in the Hong Kong based life insurance companies, including both reinsurance business and activities conducted through overseas branches or associates. Apparently, an enormous growth in the life insurance industry has been achieved, and there are in fact a number of factors contributing to the occurrence of such phenomenon.

3.22 CHANGES IN THE SOCIAL ATTITUDE TOWARDS LIFE INSURANCE

As a matter of fact, Hong Kong has been transiting to an affluent and developed economy which brings changes to traditional social attitudes. Accordingly, a more favourable environment is available for the development of the life insurance business. The changes that shape some new attitudes towards insurance include:

CHANGE IN FAMILY STRUCTURE

There is evidence that family structure of Hong Kong is undergoing gradual changes. Though this may not immediately cause a change in social attitude, the progressive breakdown of traditional big families will definitely lead to the collapse of the traditional values in long run. It is estimated that more and more younger families will choose life insurance as a kind of security device.

EMERGENCE OF EDUCATED CLASS

The younger generation of Hong Kong is better educated and more open minded. This group of people no longer holds a negative attitude towards life insurance as their parents do. Thus they constitute the basis of the market's potential clients.

EMERGENCE OF MIDDLE CLASS

As a result of the rapid economic development of Hong Kong, there emerges a relatively affluent middle class. Recently, more and more young people, with increasing dispensable income, are moving into the middle class segment. This wealthy and educated class becomes the potential customers to consume life insurance.

GRADUAL ACCEPTANCE OF THE CONCEPT OF SOCIAL RESPONSIBILITY

Through cross-cultural interactions with western countries, the concept of social responsibility is generally accepted by businessmen and employers in Hong Kong. As a result, growth in the liability classes of life insurance is significant and there is much room for the long term business to expand.

GENERAL AFFLUENCE OF THE HONG KONG COMMUNITY

As the community becomes richer, people tend to spend more on both necessity and luxury items. Thus, spending is growing as fast as earning, making savings almost impossible. As life insurance helps people set aside some portion of their incomes as savings, which may become vital when they reach the retirement age, thus life insurance becomes increasingly popular.

Although there are no reliable statistics on the number of people holding life insurance policies, knowledgeable persons in the industry believe that only 3-5% of the population are insured. The percentage is incredibly low when compared with 90% in Japan, 80% in the United States, and 20% in Singapore.[4] The fact that only an extremely low percentage of the population of Hong Kong being insured suggests that it is possible to achieve drastic development in the life insurance market.

Moreover, according to the Census & Statistics Department, over 50% of the population of Hong Kong fall in the age range of 25 to 40[5]. Theoretically speaking, they are those who need life insurance most. If they accept the concept as those in other parts of the world do, there will be a tremendous growth in the long term business.

Thus, the potential of the life insurance market in

Hong Kong is great. Provided there is adequate education of the public with regard to the concept of life insurance, the performance of the long term business can be tremendously improved.

CHAPTER IV

BUSINESS ENVIRONMENT

4.1 PARTICIPANTS

According to the Insurance Registry of the Registrar General's Department, the number of registered life insurance companies authorized to transact long term business in Hong Kong on March 31, 1986 is 84. This includes 55 life companies and 29 composite companies. Among them, 22 are locally incorporated companies whereas the rest are overseas life insurance companies that have operations in Hong Kong. A breakdown of the origin of these 84 life insurance companies is detailed in Table 4-1 and Table 4-2.

When compared with the number of participants as of March 31, 1986 with that of November 31, 1984, it is discovered that the number of locally registered companies has dropped by 2, from 24 to 22, while the number of foreign companies has increased by 6, from 56 to 62. The change in percentage is a decrease of 8% and increase of 11%

THE ORIGIN OF THE

LIFE INSURANCE COMPANIES

IN THE INDUSTRY

Place	Number	Percentage
Hong Kong	22	26%
United Kingdom	15	17.9%
United States	13	15.5%
Bermuda	11	13%
Canada	5	6%
P.R.C.	4	4.8%
Switzerland	2	2.4%
Sweden	2	2.4%
Isle of Man	2	2.4%
Guernsey	2	2.4%
New Zealand	2	2.4%
Italy	1	1.2%
West Germany	1	1.2%
Singapore	1	1.2%
Thailand	1	1.2%

Source: Registrar of the Insurance Authority, Government of Hong Kong.

TABLE 4-1

AUTHORIZED "INSURERS"

IN DIFFERENT CATEGORIES

	31.3.1986	31.11.1984
Locally Registered	22	24
Foreign Companies	62	56
	84	80
Life Companies	55	50
Composite Companies	29	30
	84	80
Locally Registered Companies		
Life Companies	9	8
Composite Companies	13	16
	22	24
Foreign Registered Companies		
Life Companies	46	42
Composite Companies	16	14
	62	56

Source: Registrar of the Insurance Authority, Government of Hong Kong

TABLE 4-2

respectively. The resultant effect of such changes is that the total number of life insurance companies authorized to transact long term business has increased by 4, from 80 to 84, or there is a 5% increase.

In addition, when examining the type of business that these licensed insurance companies are engaged in, it is found that the number of companies pursuing life activities is 55 in March 31, 1986, as compared with 50 in November 31, 1984, this represents an increase of 10%. But the number of companies performing composite insurance have experienced a drop of 3%, from 30 to 29.

At this juncture, it is appropriate to make an assertion that the growing number of international leading life insurance companies starting their operation in Hong Kong is due to their realization of the vast potential of the local market.

4.11 RECENT RECORD OF PERFORMANCE

The year 1985 was a spectacular time for the life insurance business in Hong Kong. According to the Life Underwriters' Association, the total premium received for the year was HK$20 billion, which exclude the provident fund and retirement fund.[6] For the new policies underwritten, the total premiums received were HK$3 billion, reflecting an increase of 35%. When compared with the total premiums of HK$870 million, which were received in 1982 these figures were astronomic.

The prosperity of the life insurance industry can partly be explained by the political and economic stabilities brought about by the Sino-British Joint Declaration on Hong Kong's future after 1997. On the other hand, the guiding parity between the Hong Kong Dollar with that of the United States has stabilized the foreign exchange rate of the former. The parity is welcomed by a majority of insured as most of their policies are invested in terms of the U.S. currency. For information, most policies are available in 5 major currencies including Hong Kong Dollar for the sake of greater flexibility.

Parellel to the enormous growth in the life insurance industry, Hong Kong is on its way to become a leading insurance centre. Its unique geographical location, with sufficient legislation scrutinizing the industry, provides a favourable environment for such development.

However, in face of the tremendous growth of the life insurance industry, two significant trends of development become prominent. First, the life insurance business of Hong Kong is so competitive that small companies found difficult to survive. As a matter of fact, of the 84 life insurance companies that are licensed to conduct long term business in Hong Kong, a few large insurance companies write 80% of the policies. And most of them have been enjoying a 30% growth in the life insurance premium over the past few years.[7] Second, there is a tendency that the average value of the newly issued life policies is decreasing in spite of the fact that the total number of new policies is increasing. This is because the newly insured are usually young people from lower income group who cannot afford an expensive life policy.

Nevertheless, the long term business of Hong Kong is experiencing an age of rapid development as the population of Hong Kong gradually realizes the significance of life insurance as a social risk spreading device against the economic losses brought about by premature death.

4.2 MANPOWER SURVEY

As a result of the rapid development of the life insurance industry in Hong Kong, the number of staff required is increasing all the time. According to the 1981 and 1983 Manpower Survey Reports on Insurance, which were conducted by the Insurance Training Board of the Vocational Training Council, the number of persons employed in the life insurance sector was 1,489 and 1,934 respectively, representing an increase of 29.8%.[8] A breakdown of the life insurance industry is detailed in Table 4-4 and Table 4-5.

NUMBER OF EMPLOYEES IN THE

LIFE INSURANCE INDUSTRY.

	1981	1983
Managerial	112	117
Supervisory	41	44
Sales	951	1,426
Clerical	385	47
Sub-total	1,489	1,634
Other Supporting Staff		360
Grand Total		1,934

Sources: The Insurance Training Board of the Vocational Training Council, Manpower Survey Report on Insurance 1981 and 1983, Hong Kong Government Printer, 1981 & 1983.

TABLE 4-3

NUMBER OF VACANCIES OF

1981/83 Life INSURANCE BUSINESS

	1981	1983
Managerial	3	1
Supervisory	1	2
Sales	56	153
Clerical	14	7
Total	74	163

Sources: The Insurance Training Board of the Vocational Training Council, Manpower Survey Report on Insurance Manpower Survey, 1981 and 1983, Hong Kong Government Printer, 1982 & 1984.

TABLE 4-4

In spite of the fact that the number of the life insurance employees was experiencing a rapid increase, the industry was suffering severe manpower shortage. While there was 74 vacancies in 1981, the number in 1983 was 163. Furthermore, the forecast of additional employees required in 1981 and 1983 was 515 and 216 respectively. For a more detail information, please refer to Table 4-5 and Table 4-6.

FORECAST OF ADDITIONAL EMPLOYEES REQUIRED

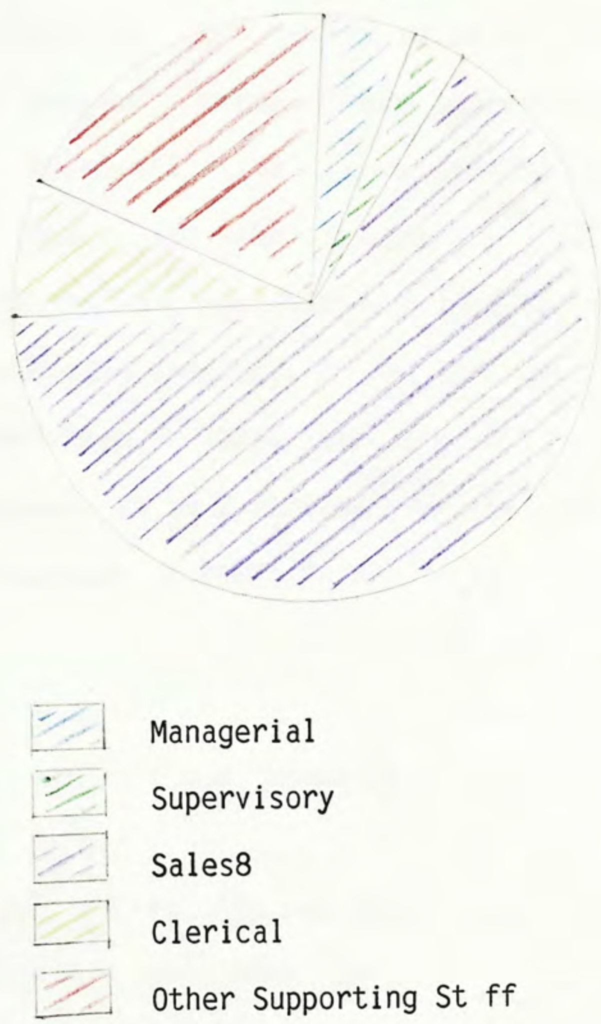
1981/1983 LIFE INSURANCE INDUSTRY

	1981	1983
Managerial	5	-
Supervisory	3	3
Sales	484	189
Clerical	23	24
Total	515	216

Sources: The Insurance Training Board of the Vocational Training Council, Manpower Survey Report on Insurance, 1981 and 1983, Hong Kong Government Printer, 1982 & 1984.

TABLE 4-5

SKILL COMPOSITION OF LIFE INSURANCE 1983



Sources: Insurance Training Board of the Vocational Training Council, Manpower Survey report on Insurance 1981 & 1983, Hong Kong Government Printer 1982 & 1984

Table 4-6

As a summary, in 1983, the manpower of the life insurance industry consisted of 64.7% sales staff, 16.4% other supporting staff, 11.4% clerical staff, 5.3% managerial staff and 2.2% supervisory staff.

From the tables, it is apparent that there has been a dramatic increase in the number of sales personnel, which reflects the insurers becoming more aggressive for business expansion. Meanwhile, the rapid development of office automation, especially the advent of electronic data processing, in the long term business implies that the actual number of vacancies available in the life insurance industry will be diminishing. This explains why the forecasted manpower required is on a decline over the years in spite of the rapid development of the life industry.

4.4 MARKETING

With respect to the marketing aspect of the life insurance business, the most effective channel is through direct personal selling. This is because it takes time to convey the concept of life insurance to the perspective customers. In such circumstances, personal selling is the most appropriate method as the salesperson can tailor his sales presentation towards the needs of the perspective customers, and whenever doubts occur, they can be clarified instantly.

Although most of the life insurance companies recognize the need to utilize other marketing devices in order to reach the greatest number of perspective customers, statistics yet suggest that the current method of selling will be the predominant one, at least in the foreseenable future, as the people of Hong Kong are not susceptible to accept other means of marketing.

In face of the importance of direct selling, life insurance companies have to expand their existing sales force. This explains why there is a constant, though may no longer be increasing, shortage of sales and marketing staff.

From the interviews with knowledgeable persons of the industry, there appears to be no particular target market they are catering for. To them, their perspective customers include the entire population of Hong Kong for life insurance is a necessity which is not restricted by age, sex or occupation. As a result of this, people from all walks of life will be recruited as members of the sales force. The rationale behind is that it is relatively easy to convince people to buy a life policy if they are approached by a salesperson who shares the same mentality with them. Consequently, the background of the life insurance salesmen varies from one team to another. Even new immigrants aře recruited because of their proximity to those who recently come to Hong Kong from Mainland China.

In past years, life insurers in Hong Kong have been concentrating on marketing the conventional life products such as Whole Life, Endowment and Term Insurance. When people in Hong Kong could enjoy the advantage of tax deduction on the premiums of life insurance, Endowment, being the highest premium plan, was the most accepted policy. Thus, tax advantage on saving in life insurance was the main sales pitch in the olden days. Unfortunately, the heyday of Endowment faded when the government decided to cancel the tax holiday on life premium.

Fortunately, in an environment of more open attitude towards death, salesmen reformulate their marketing strategy by putting emphasis on the importance of family protection as well as the long term retirement savings. Thus at present, Whole Life plan, which is regarded as a good combination of Endowment and Term Policies, becomes the most popular policy.

C H A P T E R V

OPERATING AS FINANCIAL INTERMEDIARY

5.1 AN OVERVIEW

Apart from the generally accepted role as an absorber of personal risk, the life insurance business performs a basic economic function of financial intermediation. Put it another way, the life insurance company is one of the financial intermediaries, like commercial banks, deposit taking companies and unit trusts.

Financial intermediaries are financial institutions that "act as middlemen, transferring funds from ultimate lenders to ultimate users".[9] In the context of life insurance business, life companies are in contract with their policyholders so that the latter will be required to pay, in form of periodic installments, a certain amount of premium to the former. In return, life companies are obliged to pay a sum to the policyholders in future in accordance with the terms of the policy. In order to honour the commitment made in the contracts, life insurance companies thus need to invest the premium received in form of financial or fixed assets. In this way, life companies transfer savings of the policyholders who are the surplus units to the deficit units that want to borrow. As a matter of fact, the life insurance company provides a major source of investment fund in the financial markets of many countries.

The primary objective of this chapter is of two folds, first to study the investment portfolio of the life insurance companies in Hong Kong, and second to examine the general considerations and principles guiding the investment mangers of the industry. The discussion will first begin with a preliminary study about the sources of funds of the life insurance business. Particular attention on the management of the life and annuity funds will be included. It thus follows the core part of this chapter: to examine, by referring to the financial statements of some local companies, the asset composition of the business with an ultimate objective to investigate the factors guiding the decision making process of the financial managers. Throughout the discussion, special emphasis will be made on the differences of their financial policy making between those life insurance companies financed by local capital on one hand and those financed by the foreign capital on the other.

5.2 SOURCES OF FUNDS

Before looking at the investment policy of the life insurance industry, it is interesting to have a preliminary understanding of its sources of funds and the relationship with the policyholders' interest.

Most commercial businesses earn their incomes from the revenue of sales of goods and services they provide. For a life insurance company, this is no exception. But the calculation in recognizing its revenue of sales is by no means a simple exercise.

Exhibit 5-1 illustrates a simplified but typical revenue account of a life insurance business. Primarily, the premium written and the investment incomes, including interest earnings and capital gains, constitute the two major sources of revenue. In a further analysis, the premium income comes from two sources--the continuation of the existing policies and the generation of new policies. Some of these policies are single premium ones while the remaining are those expected to give a series of premium receipts over the life of the policies. In almost all situations, premium income contributes the largest single source of revenue.

However since the policyholders are liable to make claims against the premium previously paid as well as the

TYPICAL REVENUE ACCOUNT OF A LIFE INSURANCE COMPANY

	New Policies	Renewal Policies	Total
Gross Premium			
Less: Reinsurance Premium			
Net Premium			
Gross Commission Received			
Gross Commission Expenses			
Net Commission Received			
DEDUCT:			
	Death	Surrender	
Gross Claims			
Less: Reinsurance Recoverable			
Net Claims & Surrender			
NET PREMIUM RECEIVED			
OTHER ITEMS RELATED TO LIFE BUSINESS:			
ADD:			
Investment Incomes			
Management Expenses			
DEDUCT:			
Amount Transfer to Life & Annuity Funds			
Amount transfer to Declared Dividend for Policyholders			
PROFIT/(LOSS) TO INCOME STATEMENT			

Exhibit 5.1

respective interest accumulated at the time when the policy is mature or whatsoever depending upon the terms the contract provides, thus part of the premium and investment incomes received by the life company are due to the interest of the policyholders.

5.21 LIFE AND ANNUITY FUNDS

The Life and Annuity Funds are set up for the purpose of meeting the future claims and surrenders of the policyholders. The amount of claims for death or surrender would be deducted from this account. The sum of the Funds is determined with reference to an actuarial valuation carried out for a certain interval of time. In a normal situation, claims are fairly predictable by referring to the morality tables which are used for the purpose of estimating the death rate. Interest is also credited to this account at the presumed rate determined by actuaries. The premium received and the investment incomes earned would be recognized as the company's incomes only after allocating a certain portion to the Life and Annuity Funds. In this way, the level of the Funds can be reached at the amount prescribed by the actuarial valuation. All in all, the Funds represent the liabilities of the life companies due to the policyholders.

From an accounting point of view, the item of Life and Annuity Funds on the liabilities side is representing part of the assets held by the company that are stated on the opposite side of the balance sheet. Few companies will leave the Life and Annuity Funds idle in their bank accounts. They strive to achieve a reasonable rate of return in order to meet the future claims and management expenses; and of course the return to be achieved is expected to be higher than the risk free rate (r_f) offered by the bank. In this way, the Funds as a whole can be seen as an investment fund. By virtue of its business nature, the management of the investment in a life insurance company is distinct from that in any one of other financial intermediaries. Special analysis on the industry's investment policies is therefore necessary and will be examined shortly.

5.22 DIVIDENDS DECLARED FOR THE POLICYHOLDERS

Some life insurance companies offer Participation Policies. Such policies provide that if the company earns more than the presumed return rate stated in the life contract, or if the morality rate or management expenses experienced are lower than the provision made from the premium, then the policyholders are liable to share part of the surplus. In short, this account represents the refunds to policyholders of part of the premium payments they have made on policies which are initially sold on a participation basis.

5.23 PENSION FUND

The item of Pension Fund is the reserve for those who participate the company's pension scheme. The life insurance companies' activities in organizing pension scheme are increasing in recent years in Hong Kong where the issue of retirement pension earns the public attention. Usually, Pension Fund is stated as a separate item in the financial statement for its business nature is different from that of the life business.

5.3 INVESTMENT OPERATION

There is no general statement to describe the investment operation of the local life insurance industry. For the sake of discussion, it seems appropriate to categorize the industry into three segments for each of which gives a completely different picture in their investment operation in Hong Kong.

Those life insurance companies that are mainly financed by local capital are among one of the three categories. As a general statement, these companies usually maintain, if any, a minimum financial operation. There is no significant number of staff responsible for keeping a close scrutiny over the activities of the major financial markets in Hong Kong or overseas. Nor do most of the staff possess sufficient professional expertise in running an investment arm of the life insurance company. Accordingly, many sophisticated analysing tools that are widely used in many western countries in assisting the life insurance investment decisions can hardly be found in most local companies.

Among many of these local companies, the main outlet for the premiums they have collected is to finance the activities of their parent holding companies and other related companies. These companies' business activities are not confined to some particular industries; rather the activities vary from retail business like Wing On Department Store, a related company of Wing On Life Company, to transportation services, like Hong Kong Container Maintenance Company, a subsidiary of Pacific Life Limited. Moreover when examining the accounts concerning these companies' balances with their related companies, which will be discussed in detail on Section 5.45, one may conclude even further that these insurance companies are the funding vehicles for their related companies, who are the main execution arms for their group's principal activities, than to argue that they are performing the orthodox function of financial intermediation for the economy.

Those companies as the subsidiaries of their parent companies incorporated outside Hong Kong constitute the remaining two categories in the classification. The primary element that differentiates these two groups pertains to their scale of investment operation in Hong Kong. Thus while many companies maintain a treasury department on quite a small scale, others have a specialist team for making investment decisions. For the former, the local treasury department is responsible mainly for collecting premiums for and paying claims on behalf of their parent company outside Hong Kong. For the latter, the investment management team is responsible for conducting analysis of and participating in the local financial markets. However, it should be noted that even those companies actively involved in local financial markets still invest the majority of the collected funds outside Hong Kong. Perhaps, Hong Kong lacks a certain security market that can provide some special kinds of securities in which they want to invest. Nevertheless almost all these companies financed by foreign capital are professional in managing policyholder's money by maintaining expert investment teams, in or outside Hong Kong, for their global business.

5.4 COMPOSITION OF THE INVESTMENT PORTFOLIO

After understanding that the financial operation of the local life insurance companies is by no means homogeneous, it seems appropriate to see how this affects the composition of the investment portfolio.

Table 5-1 illustrates the asset composition of some locally incorporated life insurance companies. As mentioned, not all life insurance business conducting activities in Hong Kong are locally incorporated. The discussion however is not going to examine the financial data beyond those of the locally incorporated companies. Since those who are the subsidiaries of the holding companies incorporated outside Hong Kong have merely need to submit the consolidated financial statements of their business group as a whole, and no separate financial statements on the local activities are available at the Registrar's Office. In these circumstances, only those companies incorporated in Hong Kong with separate financial statements concerning the local life business available for public reference will be selected as samples in this survey. The samples include: The China Hong Nin Life Insurance Company, The Wing On Life Assurance Company, the Sincere Life Assurance Company, Hong Kong Family Life Insurance Company, The Carlingford Swire Life Assurance Limited, Grand Union Assurance Limited, and Pacific Insurance Company.

From Table 5-1, one can perceive that the asset composition of the portfolio is being classified broadly into six categories, viz., Fixed Assets, Securities Investment,

ASSETS COMPOSITION OF THE SELECTED LOCALLY INCORPORATED LIFE INSURANCE COMPANIES
AS AT DECEMBER 31, 1984*

	CHINA HONG NIN	% TO TOTAL ASSETS	WING ON LIFE	% TO TOTAL ASSETS	SINCERE LIFE	% TO TOTAL ASSETS	HONG KONG FAMILY	% TO TOTAL ASSETS	GRAND UNION	% TO TOTAL ASSETS	CARLINGFD SWIRE	% TO TOTAL ASSETS	PACIFIC INSURANCE	% TO TOTAL ASSETS	SAMPLE TOTAL	% TO TOTAL ASSETS
LAND & BUILDING	19279	18.37%	25927	10.47%	0	0.00%	0	0.00%	68	0.29%	0	0.00%	0	0.00%	45274	1.82%
FURNITURES & FIXTURES	63	0.06%	1718	0.69%	0	0.00%	159	1.39%	81	0.34%	978	0.05%	2519	1.99%	5518	0.22%
MOTOR VEHICLES	12	0.01%	158	0.06%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	46	0.04%	216	0.01%
TOTAL FIXED ASSETS	19354	18.44%	27803	11.23%	0	0.00%	159	1.39%	149	0.63%	978	0.05%	2565	2.02%	51008	2.05%
FIXED INTEREST INVESTMENT																
GOVERNMENT	0	0.00%	55709	22.51%	0	0.00%	0	0.00%	0	0.00%	123365	6.26%	0	0.00%	179074	7.20%
CORPORATE : LISTED	0	0.00%	557	0.23%	0	0.00%	0	0.00%	0	0.00%	723032	36.70%	0	0.00%	723589	29.08%
UNLISTED	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	10386	8.20%	10386	0.42%
	0	0.00%	56266	22.73%	0	0.00%	0	0.00%	0	0.00%	846397	42.96%	10386	8.20%	913049	36.70%
VARIABLE INTEREST INVESTMENT																
EQUITY : LISTED	2023	1.93%	28979	11.71%	0	0.00%	0	0.00%	0	0.00%	800596	40.64%	0	0.00%	831598	33.42%
UNLISTED	50785	48.39%	359	0.15%	0	0.00%	0	0.00%	0	0.00%	22981	1.17%	0	0.00%	74125	2.98%
	52808	50.32%	29338	11.85%	0	0.00%	0	0.00%	0	0.00%	823577	41.80%	0	0.00%	905723	36.40%
TOTAL SECURITIES INVESTMENT	52808	50.32%	85604	34.59%	0	0.00%	0	0.00%	0	0.00%	1669974	84.76%	10386	8.20%	1818772	73.10%
SECURED/PARTLY SECURED LOANS	421	0.40%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	421	0.02%
UNSECURED LOANS	26805	25.54%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	26805	1.08%
POLICY LOANS	0	0.00%	10101	4.08%	206	5.70%	0	0.00%	743.5	3.15%	0	0.00%	0	0.00%	11050.5	0.44%
TOTAL LOANS	27226	25.94%	10101	4.08%	206	5.70%	0	0.00%	743.5	3.15%	0	0.00%	0	0.00%	38276.5	1.54%
TOTAL FINANCIAL INVESTMENT	80034	76.26%	95705	38.67%	206	5.70%	0	0.00%	743.5	3.15%	1669974	84.76%	10386	8.20%	1857048.5	74.64%
DEPOSITS WITH BANK & DTC	7.5	0.01%	74002	29.90%	3384	93.56%	0	0.00%	16147.5	68.41%	265060	13.45%	37200	29.36%	395801	15.91%
RELATED CO. BALANCES	3549	3.38%	42870	17.32%	0	0.00%	11200	97.58%	6164	26.12%	3247	0.16%	57873	45.67%	124903	5.02%
OTHER ASSETS	2005.5	1.91%	7136	2.88%	27	0.75%	119	1.04%	399	1.69%	30916	1.57%	18684	14.75%	59932.5	2.41%
TOTAL ASSETS	104950	100%	247516	100%	3617	100%	11478	100%	23603	100%	1970175	100%	126708	100%	2488047	100%

*With the exception of the accounts of Grand Union Life Asurance Ltd. whose fiscal year ended on March 31, 1985.
Sources: Annual Reports of the companies submitted to Hong Kong Companies Registry.

Loans, Liquid Assets, Balances with Related Companies and Other Assets.

5.41 SECURITIES INVESTMENT

The category of Securities Investment usually constitutes a major item in a life insurance company's portfolio. As illustrated in Table 5-1, the item of Securities Investment, shared equally by the Fixed Interest Investment and Variable Interest Investment, constitutes 73.10% of the Total Assets in the aggregate figure of the sample selected for the discussion. Compared with the counterpart figure of the United States in 1981, as shown in Table 5-2, the local figure of the Securities Investment is even bigger. But the sample total is by no means giving a fair conclusion. For the figure is largely under the shadow of that from Carlingford Swire. In a further analysis, almost half of the samples keep a low percentage of Security Investment to Total Assets, which is not more than 10%. Though at this point it is far from the stage to give a conclusion that many life insurance companies in Hong Kong are non-active participants in financial markets, the discussion so far serves as a good beginning for a more comprehensive analysis.

ASSET COMPOSITION OF

U.S. LIFE INSURANCE COMPANIES, 1981

	IN BILLION USD	% TO TOTAL ASSETS
BOND SECURITIES		
GOVERNMENT	39.5	7.51%
CORPORATE	193.8	36.86%
	233.3	44.37%
STOCK EQUITIES	47.7	9.07%
TOTAL SECURITIES	281	53.44%
MORTGAGES	137.7	26.19%
POLICY LOANS	48.7	9.26%
TOTAL LOANS	186.4	35.45%
REAL ESTATES	18.3	3.48%
OTHER ASSETS	40.1	7.63%
TOTAL ASSETS	525.8	100.00%

Source: Benton E. Gup, Management of Financial Institutions, Houghton Mifflin, Boston, 1984, p.416; originally from 1982 Life Insurance Fact Book, pp.66-68.

5.411 FIXED INCOME INVESTMENT

Generally speaking fixed income investment is, to a large extent, composed of bonds investment. As a rule of thumb, bonds investment constitutes a majority if not overwhelming portion in the category of securities investment in many countries, especially in the United States and Britain. As shown in Table 5-2, Bond Securities constitute nearly 70% of the Securities Investment in the life insurance industry of the United States in 1981. This observation perhaps can give a preliminary understanding of some aspects of the investment policy taken by the life business. From an investment point of view, all bonds share a common feature of carrying a fixed sum of principal that would be repayable when mature. Besides, they can normally generate a constant flow of interest income.

Among this category government bonds are, without doubt, the indispensable ingredient. They enjoy a major advantage of low risk but high marketability. Relatively speaking, corporate bonds play an equally or even more important part in the bond portfolio for their higher rate of return than that of government bonds. But not all corporate bonds are selected as the investment target by life insurance companies. For some may have a high yield but suffer from a corresponding high default risk. In most reputable life companies in the world, only those bonds bearing a quality grade, in Standard and Poor's rating,[10] of "A" or better will be considered as ingredients in their portfolio.

Turning to the situation in Hong Kong, the bond market is not so well developed as in other financial centres. Therefore companies are, if they want to have bonds investments, required to purchase bonds in other countries. Among others, medium to long term Euro-dollar bonds and U.S. Government securities constitute the major elements in their overseas portfolio.

5.412 EQUALITY INVESTMENT

Text books opinion always consider that equity investments are usually less desirable among the investment targets of a life insurance company. In contrast with purchasing bonds, investments in equity shares are usually considered incurring a higher risk. Their attribute of unstable cash flow due to having no fixed dividend payment and that of severe price volatility discourage many life insurance companies to hold equity stocks on an extensive scale. Hence, there is no wonder in the United States 1981 that only about 9% of the life insurance industry's total assets are in form of equities. However from the samples collected in this survey for the local life insurance industry, the comparable figure is more than 36%. Perhaps the phenomenon can at least partly be explained by the fact that Hong Kong lacks an active bond market, and thus part of the funds would instead flow to the stock market which is of a larger scale. Nonetheless from the interviews with some insurance companies which are incorporated overseas but maintain an active business in Hong Kong, it is observed that there is a growing trend of their participation in the local stock market. This perhaps also reflects the global trend of the life insurance business, which now is looking for a higher return of capital gains. Hence, increase in the investment in stock equities is not surprising.[11]

5.42 LOANS

For many life companies in the world, another major category in their investment portfolio is formed by various kind of loans. Like bonds investment, loans can generate a stable periodic interest income. On the other hand, they usually provide a relatively higher yield than the bonds investment can offer owing to their low or absence of marketability. Moreover, the management cost for a mortgage loan is definitely smaller than that for a bond investment. As a result, loans in various forms are among the major categories of the investment portfolio in the life insurance business. From the figures of the United States in 1981, various loans in total constitute about 35% of the total assets held in the industry. However, the situation in Hong Kong gives a completely different picture. The comparable figure is only at 1.54%, and almost all companies in the sample have no more than 6%.

There are usually two items, namely secured/partly secured loans and policy loans, among the category of loans. Theoretically, life insurance companies should refuse to grant loans unless they are collateral. Therefore mortgages serve as an important item in this category. Since mortgages are by virtue secured by a lien or real property, they are of high investment quality. Together with their maturity distribution pattern, mortgage loans can always be able to match the target investment yields, degree of risk tolerance and cash flow pattern of a life insurance business. Mortgages are especially favoured by some smaller companies who decline to maintain a huge investment team scrutinizing the securities markets.

There is a growing trend at least in the Hong Kong life insurance industry that companies try to arrange loans, in an indirect way through commercial banks, with those who want to borrow. In this respect, banks are acting as intermediaries and guarantors for the life insurance companies.

The item of Policy Loans is another important form of asset in many life insurance companies. These are loans to policyholders against the cash value of their life insurance policies. In essence, life insurance companies lend policyholders against their own funds and charge them interest for the loans. Until recently, most companies charged policyholders rates that were fixed at the time as policy loans were made. But that the interest rate soared in late 1970s encouraged many policyholders to borrow from the life company against their policies and in turn to invest the fund in other comparable safe assets that could generate a higher yield. As a result, many companies began to charge the interest on policy loans at a variable market rate. Nevertheless no matter how life insurance companies change their policy on interest charges, policy loans give them no default risk for the policyholders are borrowing against their interest due from the companies.

Policy Loans have become less popular in the United States during 1981 mainly owing to the fact that interest charges have already set at a higher level. But compared with the similar figure in Hong Kong, which was 0.44%, as illustrated in Table 5-1, policy loans are far more popular in the United States. It is probably due to the fact that in Hong Kong the life contracts, if any, do not provide a favourable term for the policyholders to borrow against the premiums they have already paid.

It is surprising to discover in this research that unsecured loans do exist, though having only one among the sample. However, one could hardly find the same item in the United States for the practice is legally forbidden. From an academic point of view, the item of unsecured loans can hardly be tolerated in the life insurance business which has long been renowned for prudent investment practice. It therefore leaves an open question to those interested, especially the government, to consider whether it is necessary to have some restrictions on the financial investment policies of the life insurance industry in Hong Kong.

5.43 REAL ESTATE

From a theoretical point of view in an life insurance company, real estate should constitute only a minor portion of the total assets. No doubt, the property market is one of the outlets large enough to absorb huge investment funds. But the business risk in real estate investment is extremely high. In order to eschew taking risk, most life insurance companies prefer to participate in the business in an indirect way, taking only the advantages of the industry's ability in absorbing investment funds. By granting them mortgages, life companies can participate indirectly in the property market while the risk of price volatility in the market would be born by the individual households or properties developers who have borrowed the mortgages. Thus there is no wonder why in both the cases of Hong Kong and the

United States, direct investment in real estate is far behind that in mortgage loans.

However, it should be noted that some foreign incorporated companies have placed significant funds in establishing buildings for their office premises in Hong Kong. Perhaps, this serves as an indication for their commitment to the local market, and the practice may be conducive to their marketing activities. Similar practice is also used by some locally incorporated companies, among others Sincere and Wing On life companies, who in contrast consider that a wholly-owned office building would give administrative convenience to their business.

5.44 LIQUID ASSETS

Finally, liquid assets represented by certificate of deposits and other deposits with banks or other finance companies serve as a cushion against the normal and some contingent needs meeting the liabilities called upon by the policyholders.

In the United States, the item usually comprises a minor, if not negligible, fraction among the investment portfolio components. In the sample reflecting the Hong Kong situation shown in Table 5-1, the figure for liquid assets is more than 15%. In a further analysis, one can however find that two companies in the sample have a overwhelming portion, over 70%, of the investment in cash. Even though many of the companies in the sample are from about 15% to 30%, the liquid assets they hold are relatively at a fairly high level. From the interviews with several participants in the Hong Kong life insurance industry, it was found that these companies tend to place a substantial amount in terms of fixed rate certificate of deposits with commercial banks or with deposit taking companies. Occasionally, commercial papers issued by giant corporations would be purchased, but of less importance for the relatively higher default risk incurred. It can be asserted that such a situation is to a certain extent the result of the failure of these companies efficiently managing their asset portfolio. The situation can also be argued as a reflection of the fact that many life insurance companies, including some of the large international corporations, do not maintain a significant number of investment staff in Hong Kong. As a matter of fact, international life companies like American International Assurance, and Sentry Insurance, though each has a substantial share in the local market, have an investment team of no more than fifteen in Hong Kong.

5.45 BALANCES WITH RELATED COMPANIES

Even though the sample aggregate in the balance sheet item of "Balances with Related Companies" represents only a very small percentage of the total assets, the figure is quite significant, varying from 17% to 97%, in some individual companies including Pacific Insurance, Grand Union Life Assurance, Hong Kong Family Life Insurance, and The Wing On Life Assurance. The relatively high percentage in these companies indicates, at least to some extent, that life insurance activities in these companies are acting as a funding vehicle for their respective business group. Perhaps, this is a distinct characteristic of the life insurance industry in Hong Kong.

5.5 FACTORS DETERMINING THE INVESTMENT DECISIONS

The discussion so far has given a rough portrait of the asset composition of the life insurance business in Hong Kong. For any individual companies who have the sophistication in managing the investment policies, they may find that their portfolio is largely influenced by the factors to be discussed in the following sections.

5.51 LIABILITIES ORIENTATION

The investment decision making process in a life insurance company is very much liabilities oriented. To explain it in brief, the investment portfolio of the life insurance company is determined by the nature of its liabilities. The terms of life insurance contracts between the company and the clients in turn shape the nature of the liabilities. In this way, investment decisions by no means can be independently made. They are governed by the type of product the company has sold.

The following paragraphs will illustrate the impacts generated from the type of product sold upon the return objective, liquidity requirement, and other parameters gearing the life insurance investment policy.

5.52 TARGET RATE OF RETURN

The primary parameter that acts as the basic guidance to all financial managers in their investment decision making is the target return objective. For a life insurance company, the rate of return is corresponding to the rate used by actuaries in determining the level of the policyholders' reserves, i.e. the Life and Annuity Funds. The rate used by the actuaries for a particular company in turn depends upon the assumed interest rate established for each contract made with the policyholder. In this way, the minimum return requirement for a life insurance company is the aggregate of the interest rate payable, according to the provisions of the contract, to the policyholders and the necessary rate sufficient to cover the management expenses and commission charges. To put it in a quantitative manner, the minimum return requirement can be expressed as follows:

$$r + \frac{E + C}{R}$$

where r : weighted average interest rate for the contracts made

E : total overheads and management expenses

C : commission charges

R : total expected revenue

Failure to earn this aggregate rate would definitely lead to a loss to the company. To put it in another way, consistently achieving an above average investment return can allow the company to enhance its competitiveness by offering a higher rate of return to attract the customers or by lowering the required sum of premium payments. All in all, the return requirement for a life insurance business is affected by the rate of return the life contracts provide for the policyholders.

It is possible to increase the expected rate of return by escalating the investment risk so long as the inverse relationship between risk and return holds in an efficient capital market.[12]

5.53 RISK TOLERANCE

However as a general statement, life insurance companies have long been renowned for avoiding to bear any substantial chance of huge principal loss.

It may be due to the fact that life insurance serves as the dual purpose of providing protection as well as saving function to the policyholders. Unlike a unit trust's clients calling for a higher rate of return, those who have purchased life insurance, in contrast, basically demand a protection against personal risk. They are concerned with safety rather than the rate of return the life insurance company can offer. What they are looking for is how their protection be secured.

On the other hand, that governments in many countries such as the United States, Canada, and Great Britain have tight legislative control in regulating the life insurance operation serves as another reason explaining why the industry tends to take a conservative investment policy. The governments realize that any bankruptcy in the life insurance business will severely affect the public confidence on the country's financial system. Even though the Hong Kong government has no legislation regulating the investment portfolio of the life insurance industry, those companies incorporated in the western countries having branches in Hong

Kong are still required to observe the legislation of their mother country. As a result, these companies follow the same prudent investment principles as their headquarters do. On the other hand, many responsible locally incorporated life insurance companies, though subject to no legal constraints in investment, do decline to put the reserve funds on the risky assets regardless of the temptation of higher return.

5.54 RECENT TREND OF THE TARGET RATE OF RETURN

However, it should be noted that there is a tendency for quite a number of life insurance companies in some countries, including Hong Kong, to change their portfolio in recently years. They increase the holding of the investments that involve higher risk. The most important reason accounted for this change is the introduction of the Universal Life Policy.

As mentioned earlier, the investment policy of life insurance is largely shaped by the terms of contracts signed. The Universal Life Policy has some fundamental differences in nature as distinct from the traditional ones. The new product is revolutionary for their unique feature in providing a more flexible and investment oriented package. Those who joined the new policy have to pay a specified amount for the insurance protection desired. For a separate fee, the policyholders can deposit in a savings type fund that is able to offer an attractive interest rate though the investment risk would largely born by the policyholders themselves. It is the latter term provided by the new product creates some important impacts on the investment policies of life insurance business.

To be specific, the impacts are in two folds. For one thing, the Universal Life Policy calls upon the practice of unbundling insurance risk management. As the new product transfers part of the investment risk from the life insurance company to the clients, the company is able to adopt a more aggressive investment policy in contrast with the traditional ones so as to strive for an attractive rate of return to this particular group of policyholders who are looking for a higher return rate. Many local companies are undergoing such change in their investment policy. For another thing, given that there exists various kinds of life insurance products requiring no single type of investment policy, portfolio segmentation becomes necessary for most companies. Portfolio segmentation is a kind of investment practice where financial managers of life companies are required to create sub-portfolios in accordance with the product nature under the general portfolio account. Even though most locally at present incorporated life insurance companies still do not put the concept in action, it can be expected that the practice of portfolio segmentation is an inevitable trend for the industry in the coming future when the Universal Life

Policies become popular. All in all, the introduction of new product illustrates that provisions of the life contract determine the required return of a life insurance company and hence the company's investment policy.

5.55 LIQUIDITY DEMAND

Unlike their counterparts in some other financial intermediaries, like banks and deposit taking companies, financial managers in life insurance companies seldom found the issue of liquidity as their major consideration. Since the liquid demand of the life insurance business is either due to death or surrender of policy, a company's liquidity demand is fairly predictable by referring to the terms of the contracts and the actuaries' morality tables; and hence the financial managers have sufficient time to meet the required liquidity. Owing to the fact that the demand for cash to cover the liabilities can be met by premium receipts, thus it can be argued that the growing volume of life business renders the necessity for liquidating financial and fixed assets negligible. In this respect, one can hardly assert that the relatively high cash level in many locally incorporated companies is due to their prudent practice in their financial management.

Nevertheless, it is useful for the financial manager to have an idea about the weighted average maturity period of their liabilities in making their investment decisions.

5.56 DURATION--RISK IMMUNIZATION OF INTEREST FLUCTUATIONS

The importance of knowing about the maturity of the liabilities is that it would help to set investment policy to immunize the risk due to volatility of the interest rate. To illustrate this point, it is desirable to begin with a simple situation.

Earlier in this chapter, it was mentioned that in any period, the aggregate sum paid by a life insurance company for pay the claims due to the policyholders is fairly predictable. In other words, the total amount of securities, if any, required to be converted to cash either from the secondary of the or from the original borrower can roughly be estimated. On the other hand, assuming that a significant portion of a life company's investment portfolio consists of the discount or zero coupon debt securities with a fixed term to maturity, thus their principal value receivable at the maturity date is fixed. However, the current market price throughout the period to the maturity date will depend upon the interest rate of the securities against the current market rate.

In this simple situation, one way to immunize the interest rate risk that would bring forward a premature zero coupon security at the value within the investor's expectation is to purchase those security assets which have the term to maturity as same as that of the liabilities, say the policy claims in this case. In these circumstances, the investment manager need not sell the securities in the secondary market at an uncertain price, which would fluctuate inversely to the movement of interest rate, to collect cash meeting the liabilities due. Rather they can redeem as the term due, the securities from the borrowers at the price exactly of the face value of the securities. In a perfect situation, the investment managers can meet the liquidity needed without uncertainty.

Nevertheless, the world is not as simple as the above situation created deliberately for explanation. For one thing, debt securities are assumed to be sold at a discount. In reality, they are fixed income securities that generate returns to the investors by means of fixed income interest payments coming due once for a period of every six months. Thus the returns received by the securities holders come from two ways, viz., the periodic interest payments and the principal repayment. the former is different from the latter in that it provides a series of cash flow before the date to maturity. Cash inflow for the interest receipts constitutes part of the sum that will be used to pay for the anticipated liabilities coming due. The problem of reinvestment will then come again to obsess the financial manager.

The discussion so far poses a serious problem. Unfortunately, it is not yet the end of the whole story. The hypothetical situation just described is further complicated by the fact that the value of the life insurance companies' liabilities, though fairly predictable it may be, will fluctuate proportionately with the changes of the interest rate. Generally, an increase of the market interest rate will call for a corresponding, though in a smaller extent, increase of the interest value payable to the policyholders. Strangely enough, the complication gives a solution rather than an addition to the existing problem of reinvestment. For as long as the policyholders' return will be adjusted inversely to the interest rate, the change in the total receipts of the investment income due to the interest rate fluctuation would largely be offset by the corresponding change in the company's liabilities due to the policyholders. In this respect, the financial managers have no need to worry very much about the effects of the interest rate fluctuation upon the interest income.

Nonetheless there still remains a final problem. As part of the investment return obtained from the receipts of the interest collected is spreading along the period until the debt is repaid, the maturity of the security would be of a shorter period than its stated date of maturity for the principal repayment. In this respect, the financial managers need to consider a technical question of how to calculate the weighted average term to maturity for any given debt so that it is possible to match the investment assets' duration against the objective of interest risk immunization of the investment assets with that of the liabilities.

Thanks to R.M. Redington, the calculation of the weighted average term to maturity that had long been looking for has become possible with the introduction of the concept of Duration. Duration is, as one may now be able to define, "weighted average time to full recovery of principals and payments."[13] To write it in a mathematical way, Duration (D) can be expressed as follows:

$$D = \sum_{t=1}^{T} \frac{\frac{I \times t}{(1+r)^t}}{\frac{I}{(1+r)^t}} + \frac{\frac{F \times T}{(1+r)^T}}{\frac{F}{(1+r)^T}}$$

where D : Duration

I : Interest due at period t

F : Principal amount

r : Coupon rate

It should be added here that Duration is also applicable not only on the assets side but also on that of the liabilities. As some of the life products provide dividend payments to the policyholders before the policy matures, part of the return of the policy would be distributed before the maturity date. Similar to the case of coupon securities, it calls for the need of using Duration, however, on the opposite of the balance sheet.

Putting the previous discussion in action, financial managers in a life insurance firm can eliminate the interest rate exposure by matching the Duration of the investment assets held with that of the liabilities due. Duration concept is widely employed by the managers in the companies having investment team practising sophisticated investment policy. In fact, the tool of Duration is also applicable in other areas calling for assets and liabilities management. Nevertheless, life insurance business, for virtue of low risk tolerance, is a major area finding the concept most useful.

5.57 RISK IMMUNIZATION OF FOREIGN EXCHANGE FLUCTUATION

Many local incorporated insurance companies feel reluctant to put all of their investment in the local financial markets. For one thing, they may find Hong Kong financial markets fail to provide certain kind of securities in which they would like to invest, such as government bonds and corporate bonds. It therefore persuades the financial managers to invest abroad. For another thing, the investment decision makers want to diversify their portfolio geographically to reduce the economic or political risks. However the practice to invest overseas leads to foreign exchange risk. As premiums received from and claims payable to the policyholders are in local currency but some of the investment held are in foreign currency units. Thus any foreign exchange fluctuation would definitely poses a risk. If favourable, it represents an exchange profit; otherwise a loss is the result.

The problem of foreign exchange risk is a more important issue to those companies incorporated and conducting the investment activities outside Hong Kong, even though many of them try to issue life contracts in the currency that can immediately provide immunization of exchange risk.

On the other hand given the golden rule of the life insurance operation is to take no high risk, and that foreign exchange has a high degree of price volatility, it seems imperative for the companies to do something to immunize such kind of risk. Like their counterparts in other countries may do, they can eliminate the foreign exchange risk through forward contracts making. In this way, the company can look forward to obtain local currency at a certain exchange rate on a particular date.

5.6 REITERATION

To reiterate, life insurance performs an economic function of financial intermediation similar to that performed by commercial banks and deposit taking companies. While many companies providing financial intermediary services in Hong Kong are highly professional, the same statement is not applicable to the cases in many life insurance companies. It is not rare in many instances that life insurance companies are the funding vehicles of their related companies who engage in various business activities other than insurance. Professional management, with an objective to manage the policyholders' funds effectively and efficiently, can hardly be expected in these cases. Nonetheless as for the impact of the influx of foreign-based life insurance companies, one can take an optimistic attitude that the industry in Hong Kong is expected to be going towards professional in managing insurance funds.

C H A P T E R VI

CONCLUSION

After examining the various facets of Hong Kong's life insurance industry, it is appropriate to make a conclusion that the life insurance business in Hong Kong is not as sophisticated as its western counterparts. The industry remains in the infant stage. From a financial perspective, in the past most of the life insurance companies in Hong Kong , especially those locally established, do not maintain a management force to be responsible for financial matters. There is also a lack of long term but highly prudent financial policy to govern the company's investment behaviour. As a rule rather than the exception, these companies are functioning as a funding vehicle for their related companies in Hong Kong and overseas that are engaged in insurance business or not.

On the other hand, the marketing method of most of these life insurance companies is very conservative in exploring the potential of the life insurance market. These companies rather, rely on the selling of conventional products, such as Term Policy, Whole Life Policy and Endowment Policy, by means of direct personal selling. The adoption of such practice is due to the local companies' perception that the Hong Kong market is not sophisticated enough to accept the advanced and complicated life products prevailed in the western societies.

However, the recent developments of the long term business tend to suggest that the industry is gradually moving towards the take off stage, and thus spectacular growth will be accomplished accordingly. As a support to such conclusive statement, a summary on the recent trend of developments of the life industry should be reviewed.

As a matter of fact, the importance and significance of the concept of life insurance have been progressively accepted by the people of Hong Kong, especially those of the younger generation. To this group of people, life insurance is a social risk spreading device against any economic losses that may be brought about by premature death. Their acceptance of the life insurance concept is a definite advantage to the future development of the industry as the whole population will be gradually educated and influenced by the word of the mouth type of marketing effort initiated by the policyholders.

However as the life market grows, the market becomes more sophisticated. Consumers are looking into better return for the premium money they invest. As a consequence, most of the internationally leading life insurance companies in Hong Kong start to offer investment-related product, which gives the policyholder a return that can better reflect the actual investment performance in addition to the guaranteed death cover. The introduction of such more consumer-oriented life policy not only gives the perspective customer a wider choice, but also stimulates the overall development of the industry.

Furthermore, the influx of international life insurance companies has also brought about some important and innovative policies like the Preferred Life Concept and Disability Insurance. While the former will give a favourable premium rate--a rate as low as 50% of the standard rate--to those physically better off, the latter will provide protection against loss of income resulting from long term sickness or accident. It is evident that the general acceptance of these innovative products is quite satisfactory and the vast potential of the Hong Kong life market can be explored as time goes by.

Meanwhile, the increasing popularity of Group Life Insurance indicates that the importance of the long term business is not confined to the context of family, rather, it has influence upon the entire business world. As the commercial environment becomes more sophisticated, companies do face severe financial problems if a partner or key employee dies unexpectedly. Thus, Estate Plan as well as Business Insurance are introduced by the life insurers, and such plans will play a more important role in the life insurance marketing.

At this juncture, it is apparent that the life insurance market is generating series of undercurrents that are going to bring about drastic developments to the industry. Moreover, the continuous increase in the acceptability of the concept of life insurance by the general public gradually upgrades the social status of the industry. As a result, more and more qualified, creative and conscientious people are willing to join the life insurance industry as professional sales people. Eventually because of the endeavours contributed by these salespersons, the population of Hong Kong is gradually gaining knowledge of the long term business. This results a definite advantage to the future development of the life insurance industry.

Meanwhile, the development in the financial aspect of the industry further substantiates the potential growth of the life insurance business. The coming of the leading international life insurance companies to Hong Kong has important impacts to the local industry. The life premium collected by the local subsidiaries will be remitted to the overseas parent companies for investment. In such circumstances, funds collected will be managed by more advanced and sophisticated portfolio management methods. In the mean time, the change also alarms those locally incorporated companies, who would be obliged to be looking for a more fund professional management practices.

Following the introduction of the new products, namely Universial Life Policies, the practice of portfolio segmentation is employed in gearing the life insurance company's investment policy. The utilization of such practice is very important for the big difference in the nature between new life products and traditional products. For the new products have brought about a different pattern of the companies' liabilities. For the sake of accounting and finacial management, different sets of portfolio should be employed for different products in order to achieve the expected rate of return.

This trend of development in the financial aspect of the life insurance industry will inevitably call for a more comprehensive modernization of the whole industry. However, a number of areas have to be dealt with before spectacular growth of the life insurance industry can be achieved. Among these, the distribution channel constitutes a very crucial consideration. At present, all the life insurance companies rely on the agency system for market exploration. Although this is the most effective channel, it is too expensive and time consuming in terms of manpower and manhour employed. For the sake of efficiency and effective coverage of the potential market, segmentation of the market seems necessary, and different marketing strategies should be employed accordingly. For the existing policyholders who have some basic knowledge of life insurance, the use of mass media and pamphlet for promotion is more economical especially when there is an introduction of new products. However for those non-insured, the advantages of personal contact encourage the continuation of direct selling. Unfortunately, most of the companies do not adopt such a practice and this lead to uneconomical use of scarce resources. In view of the potential benefits that may be brought about by this concept of market segmentation, it is highly recommended that the life insurance companies should adopt this approach when attempting to explore the Hong Kong market.

In the meantime, the Hong Kong government is advised to tighten the legislative control over the life insurance industry. For instance, both the sales agents as well as the intermediaries, viz. insurance brokers, should be subject to legislative constraints in order to enhance their professionalism.

On the other hand, the industry itself should also be responsible for the conduct and presentation skills of its employees through stricter recruitment process as well as better training programme to provide them with comprehensive product knowledge.

When the market condition becomes mature, that is, there is a general social acceptability of the concept of life insurance as a social risk spreading device against any economic losses that may be brought about by premature death, thus the potential development of the industry will be tremendous. Of course, a good legal environment is also indispensable to act as the basis for the develpoment.

Notes

1. "A Preliminary Study of the Insurance Market in Hong Kong," Insurance Course Magazine (1984): pp.28-29.

2. Ibid: p.25.

3. "Life Insurance Development in Hong Kong," Insurance Course Magazine (1984): p.17.

4. "保險特輯"財經日報暨明報晚報联刊，一九八六年三月廿四日

5. "Life Insurance Development in Hong Kong," Insurance Course Magazine (1984): p.17.

6. "保險特輯"財經日報暨明報晚報联刊，一九八六年三月廿四日

7. "Life Insurance Development in Hong Kong," Insurance Course Magazine (1984): p.18.

8. "1981 Manpower Survey Report on Insurance" and "1983 Manpower Survey Report on Insurance"

9. Principles of Money, Banking and Financial Markets, 4th ed. (1983): p.67.

10. Investments, (1982): p.42
    "According to Standard & Poor's rating, bonds having 'A' grade posssess many favourable investment attributes, but elements may be present which suggest a susceptibility to impairment given adverse economic changes".

11. "The Changing Life Insurers," Business Week, (Sept. 1981).

12. In an efficient market, the risk return relationship can be expressed as follows:

$$r = r_f + r_m (1 + \beta)$$

where r : return of a project investment
r_m : market rate of return
r_f : risk free rate of return
β : degree of risk with respect to market risk.

13. Investments, (1982): pp.424-425.

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A P P E N D I X

LIST OF AUTHORIZED LIFE INSURANCE COMPANIES
IN HONG KONG
AS OF MARCH 31, 1986.

Company Name	Place of Registration	Nature
American Family Life Assurance Company of Columbus	U.S.A.	Life
American International Assurance Company (Bermuda) Limited	Bermuda	Life
American International Assurance Company Limited	P.R.C.	Composite
American Life Insurance Company	Delaware	Life
Asia Insurance Company, Limited	Hong Kong	Composite
Assicurazioni Generali Societa per Azioni	Italy	Composite
Blue Cross (Asia-Pacific) Insurance Limited	Hong Kong	Composite
Carlingford Swire International Assurance Limited	Bermuda	Life
Carlingford Swire Assurance Limited	Hong Kong	Life
China Hong Nin Life Insurance Company Limited, The	Hong Kong	Life
China Insurance Company, Limited	P.R.C.	Composite
China Life Insurance Company	P.R.C.	Life
China Reinsurance Company (Hong Kong) Limited	Hong Kong	Composite

CIGNA Worldwide Insurance Company	Delaware	Composite
Clerical, Medical & General Life Assurance Society	U.K.	Life
Commerical Bankers Life Insurance Company	U.S.A.	Life
Commerical Union Assurance Company PLC	U.K.	Composite
Continental Assurnace Company	U.S.A.	Life
Crown Life Insurance Company	Canada	Life
Crusada Insurance PLC	U.K.	Composite
CUNA Mutual Insurance Society	U.S.A.	Life
Eagle Star Insurance Company Limited	U.K.	Composite
East Asia Aetna Insurance Company (H.K.) Limited	Hong Kong	Life
East Asia AEtna Insurance Company (Bermuda) Limited	Bermuda	Life
East Point Reinsurance Company of Hong Kong Limited	Hong Kong	Composite
Falcon Reinsurance Comapny Limited, The	Hong Kong	Composite
Forex Insurance Company Limited	Hong Kong	Composite
Grand Union Life Assurance Limited	Hong Kong	Life
Gresham Life Assurance Society Limited	U.K.	Life
Gresham Unit Assurance Limited	U.K.	Life
Guardian Assurance Public Company Limited	U.K.	Composite
Guardsman Life Insurance Company	U.S.A.	Life
Hong Kong and Shanghai Insurance Company Limited	Hong Kong	Composite
Hong Kong Family Insurance Company Limited	Hong Kong	Life

Imperial Life Assurance Company of Canada, The	Canada	Life
Ka Wah AMEV Insurance Limited	Hong Kong	Composite
La Genevoise, Compagnie d'Assurances Sur La Vie	Switzerland	Life
Liu Chong Hing Insurance Company Limited	Hong Kong	Composite
Lloyd's Life Assurance (Isle of Man) Limmited	Isle of Man	Life
Manufacturers Life Insurance Company, The	Canada	Life
Manulife (International) Limited	Bermuda	Life
Mercantile And General Reinsurance Company PLC, The	U.K.	Composite
Munchener Ruchversicherungs Gesellschaft	W. Germany	Composite
National Employer's Life Assurance Company Limited	U.K.	Life
National Life Assurance Company of Canada	Canada	Life
National Western Life Insurance Company	U.S.A.	Life
N.E.L. International Limited	Guernsey	Life
New Zealand Insurance Life Limited, The	New Zealand	Life
OTB Assurance Limited	Hong Kong	Composite
Pacific Insurance Company	Hong Kong	Life
Pacific Life Assurance Company Limited	Hong Kong	Life
Peninsular Life Insurance Company	U.S.A.	Life
Phoenix Assurance Public Limited Company	U.K.	Composite
Phoenix International Life Assurance Company Limited	Guernsey	Life

Prudential Assurance Company Limited, The	U.K.	Life
Prudential Insurance Company of America, The	U.S.A.	Composite
Public Life Assurance Company Limited, The	Singapore	Life
Save and Prosper Insurance Limited	U.K.	Life
Save and Prosper International Insurance Limited	Bermuda	Life
Schroder Life Assurance Limited	U.K.	Life
Sentry Assurance International Limited	Bermuda	Composite
Sentry Insurance Company Limited	Hong Kong	Composite
Sincere Life Assurance Company Limited	Hong Kong	Composite
Skandia Insurance Company Limited	Sweden	Composite
Skandia International Insurance Corporation	Sweden	Composite
Sun Alliance And London Assurance Company Limited	U.K.	Life
Sun Hung Kai Insurance Comapny Limited	Hong Kong	Composite
Sun Life Assurance Company of Canada	Canada	Life
Sword Assurance Limited	Hong Kong	Life
Tai Ping Life Insurance Company Limited, The	P.R.C.	Life
Thai Prasit Insurance Company Limited	Thailand	Composite
Transamerica Occidental Life Insurance Company	U.S.A.	Life
Travelers Life Insurance Company International Ltd., The	Bermuda	Life
Transamerica Assurance Company	U.S.A.	Life
Transamerica Life Insurance and Annuity Company	U.S.A.	Life

Travelers Life Insurance Company (Overseas) Limited, The	Bermuda	Life
Tyndall Assurance (Isle of Man) Limited	Isle of Man	Life
Tyndall Assurance Limited	U.K.	Life
Tyndall International Assurance Limited	Bermuda	Life
Unilife Assurance (Overseas) Limited	Bermuda	Life
Vita Life Insurance Company Limited (Hong Kong Branch)	Switzerland	Life
Wing On Life Assurance Company Limited, The	Hong Kong	Life
"Winterthur" Life Insurance Company	Switzerland	Life